OFFICES OF THE

STATE AUDITOR OF MISSOURI

JEFFERSON CITY

OFFICE OF SECRETARY OF STATE

FOUR YEARS ENDED JUNE 30, 1998

MARGARET KELLY, CPA

Report No. 99-04
January 5, 1999

OFFICE OF SECRETARY OF STATE

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State Auditor's Reports

STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

P.O. Box 869
(573) 751-4824

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Rebecca McDowell Cook, Secretary of State
Jefferson City, Missouri 65102

We have audited the accompanying special-purpose financial statements of the various funds of the Office of Secretary of State as of and for the years ended June 30, 1998, 1997, 1996, and 1995, as identified in the table of contents. These special-purpose financial statements are the responsibility of the office's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of presenting the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Secretary of State and are not intended to be a complete presentation of the financial position and results of operations of the various funds of the office.

In our opinion, the special-purpose financial statements referred to in the first paragraph present fairly, in all material respects, the receipts, disbursements, and changes in cash and investments of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund; the receipts of the General Revenue Fund-State; and the appropriations and expenditures of the various funds of the Office of Secretary of State as of and for the years ended June 30, 1998, 1997, 1996, and 1995, in conformity with the comprehensive bases of accounting discussed in Note 1, which are bases of accounting other than generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 1, 1998, on our consideration of the office's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was made for the purpose of forming an opinion on the special-purpose financial statements, taken as a whole, that are referred to in the first paragraph. The accompanying financial information listed as supplementary data in the table of contents is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the office's management and was not subjected to the auditing procedures applied in the audit of the special-purpose financial statements referred to above.

An integral part of the office's funding comes from federal awards. Those federal awards are reported on in the State of Missouri Single Audit Report issued by the State Auditor's office. The single audit is conducted in accordance with the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

Margaret Kelly

Margaret Kelly, CPA
State Auditor

October 1, 1998

STATE AUDITOR OF MISSOURI
JEFFERSON CITY, MISSOURI 65102

MARGARET KELLY, CPA
STATE AUDITOR

P.O. Box 869
(573) 751-4824

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Honorable Rebecca McDowell Cook, Secretary of State
Jefferson City, Missouri 65102

We have audited the special-purpose financial statements of the Office of Secretary of State as of and for the years ended June 30, 1998, 1997, 1996, and 1995, and have issued our report thereon dated October 1, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the special-purpose financial statements of the Office of Secretary of State are free of material misstatement, we performed tests of the office's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain other instances of noncompliance which are presented in the accompanying Management Advisory Report.

Internal Control Over Financial Reporting

In planning and performing our audit of the special-purpose financial statements of the Office of Secretary of State, we considered the office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the office's ability to record, process, summarize, and report financial data consistent with the assertions of management in the special-purpose financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material to the special-purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses, and these matters are presented in the accompanying Management Advisory Report.

This report is intended for the information of the management of the Office of Secretary of State and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Margaret Kelly

Margaret Kelly, CPA
State Auditor

October 1, 1998

Financial Statements

Exhibit A-1

OFFICE OF SECRETARY OF STATE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1998

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Investor Education Fund	State Document Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS								
Federal grants	$ 2,021,648	0	0	0	0	0	0	2,021,648
Fees	0	849,061	1,372,894	0	0	0	0	2,221,955
Taxes	0	1,338,039	0	0	0	0	0	1,338,039
Investment income	0	113,276	0	0	1,089	31,047	53,653	199,065
Gain on sale of investments	0	0	0	0	0	33	0	33
Donations	0	0	0	0	7,500	2,829	0	10,329
Miscellaneous	613	0	30,008	22,980	700	0	0	54,301
Total Receipts	2,022,261	2,300,376	1,402,902	22,980	9,289	33,909	53,653	5,845,370
DISBURSEMENTS								
Personal service	262,690	20,143	644,317	0	0	0	66,369	993,519
Employee fringe benefits	84,644	3,397	164,556	0	0	0	17,330	269,927
Expense and equipment	193,666	2,722,894	243,127	0	18,504	39,785	82,597	3,300,573
Public assistance grants	1,481,281	0	0	0	0	0	0	1,481,281
Investor education	0	0	0	50,000	0	0	0	50,000
Local Records Grant Program	0	0	355,568	0	0	0	0	355,568
Trust service charges	0	0	0	0	0	4,227	0	4,227
Total Disbursements	2,022,281	2,746,434	1,407,568	50,000	18,504	44,012	166,296	6,455,095
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE OTHER FINANCING SOURCES AND USES	(20)	(446,058)	(4,666)	(27,020)	(9,215)	(10,103)	(112,643)	(609,725)
OTHER FINANCING SOURCES (USES)								
Operating transfers out (Note 4)	(19)	(120,334)	(70,818)	(542)	0	(137)	(4,485)	(196,335)
CASH AND INVESTMENTS, JULY 1	49	2,583,796	1,476,824	139,708	20,053	747,663	987,644	5,955,737
CASH AND INVESTMENTS, JUNE 3	$ 10	2,017,404	1,401,340	112,146	10,838	737,423	870,516	5,149,677

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-2

OFFICE OF SECRETARY OF STATE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1997

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Investor Education Fund	State Document Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS								
Federal grants	$ 1,658,073	0	0	0	0	0	0	1,658,073
Fees	0	822,650	1,250,992	0	0	0	0	2,073,642
Taxes	0	1,343,853	0	0	0	0	0	1,343,853
Investment income	0	118,030	0	0	39	11,591	55,081	184,741
Gain on sale of investments	0	0	0	0	0	60	0	60
Donations	0	0	0	0	20,014	0	0	20,014
Miscellaneous	878	655	8,962	124,608	0	0	0	135,103
Total Receipts	1,658,951	2,285,188	1,259,954	124,608	20,053	11,651	55,081	5,415,486
DISBURSEMENTS								
Personal service	411,546	36,521	604,543	0	0	0	22,224	1,074,834
Employee fringe benefits	60,885	9,499	158,853	0	0	0	6,115	235,352
Expense and equipment	75,366	2,665,093	272,218	0	0	0	24,925	3,037,602
Public assistance grants	1,132,294	0	0	0	0	0	0	1,132,294
Investor education	0	0	0	0	0	0	62,498	62,498
Local Records Grant Program	0	0	453,132	0	0	0	0	453,132
Trust service charges	0	0	0	0	0	3,532	0	3,532
Total Disbursements	1,680,091	2,711,113	1,488,746	0	0	3,532	115,762	5,999,244
RECEIPTS OVER (UNDER) DISBURSEMENTS	(21,140)	(425,925)	(228,792)	124,608	20,053	8,119	(60,681)	(583,758)
CASH AND INVESTMENTS, JULY 1	21,189	3,009,721	1,705,616	15,100	0	739,544	1,048,325	6,539,495
CASH AND INVESTMENTS, JUNE 3(	$ 49	2,583,796	1,476,824	139,708	20,053	747,663	987,644	5,955,737

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-3

OFFICE OF SECRETARY OF STATE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1996

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Investor Education Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum Only)
RECEIPTS							
Federal grants	$ 1,678,278	0	0		0	0	1,678,278
Fees	0	814,671	1,183,239	0	0	0	1,997,910
Taxes	0	1,283,577	0	0	0	0	1,283,577
Investment income	0	117,846	0	0	12,100	58,510	188,456
Loss on sale of investments	0	0	0	0	(454)	0	(454)
Miscellaneous	201	0	10,094	15,100	0	0	25,395
Total Receipts	1,678,479	2,216,094	1,193,333	15,100	11,646	58,510	5,173,162
DISBURSEMENTS							
Personal service	273,783	23,389	599,878	0	0	17,886	914,936
Employee fringe benefits	71,961	5,229	155,024	0	0	5,313	237,527
Expense and equipment	135,196	830,779	252,814	0	0	14,810	1,233,599
Public assistance grants	1,182,955	0	0	0	0	0	1,182,955
Investor education	0	0	0	0	0	37,501	37,501
Local Records Grant Program	0	0	411,738	0	0	0	411,738
Trust service charges	0	0	0	0	2,682	0	2,682
Total Disbursements	1,663,895	859,397	1,419,454	0	2,682	75,510	4,020,938
RECEIPTS OVER (UNDER) DISBURSEMENTS	14,584	1,356,697	(226,121)	15,100	8,964	(17,000)	1,152,224
CASH AND INVESTMENTS, JULY 1	6,605	1,653,024	1,931,737	0	730,580	1,065,325	5,387,271
CASH AND INVESTMENTS, JUNE 3(	$ 21,189	3,009,721	1,705,616	15,100	739,544	1,048,325	6,539,495

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit A-4

OFFICE OF SECRETARY OF STATE
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH AND INVESTMENTS
YEAR ENDED JUNE 30, 1995

	General Revenue Fund-Federal	Technology Trust Fund	Local Records Preservation Fund	Wolfner State Library Fund	Institution Gift Trust Fund	Total (Memorandum) Only)
RECEIPTS						
Federal grants	$ 2,572,006	0	0	0	0	2,572,006
Fees	0	703,385	1,129,685	0	38,470	1,871,540
Taxes	0	927,850	0	0	0	927,850
Investment income	0	21,789	0	17,851	58,105	97,745
Gain on sale of investments	0	0	0	5,452	0	5,452
Miscellaneous	14,755	0	8,737	0	0	23,492
Total Receipts	2,586,761	1,653,024	1,138,422	23,303	96,575	5,498,085
DISBURSEMENTS						
Personal service	294,315	0	506,782	0	14,868	815,965
Employee fringe benefits	80,416	0	155,671	0	9,804	245,891
Expense and equipment	343,635	0	292,480	0	50,000	686,115
Public assistance grants	1,872,569	0	0	0	0	1,872,569
Investor education	0	0	0	0	50,000	50,000
Local Records Grant Program	0	0	278,033	0	0	278,033
Trust service charges	0	0	0	2,348	0	2,348
Total Disbursements	2,590,935	0	1,232,966	2,348	124,672	3,950,921
RECEIPTS OVER (UNDER) DISBURSEMENTS	(4,174)	1,653,024	(94,544)	20,955	(28,097)	1,547,164
CASH AND INVESTMENTS, JULY 1	10,779	0	2,026,281	709,625	1,093,422	3,840,107
CASH AND INVESTMENTS, JUNE 30	$ 6,605	1,653,024	1,931,737	730,580	1,065,325	5,387,271

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF RECEIPTS
GENERAL REVENUE FUND-STATE

	Year Ended June 30,			
	FY 1998	FY 1997	FY 1996	FY 1995
Franchise tax	$ 77,438,570	72,788,542	67,339,079	62,239,543
Corporations	9,036,354	9,403,094	8,817,853	8,512,435
Securities	8,938,553	8,005,930	7,199,501	6,971,460
Uniform commercial code	845,840	821,680	827,327	887,718
Commissions	394,303	386,502	360,775	337,206
Administrative rules	76,138	74,747	77,291	86,381
Archives	31,516	23,084	21,802	21,202
Missouri state library	1,085	1,204	1,763	1,324
Miscellaneous	27,714	2,015	4,632	13,482
Total	$ 96,790,073	91,506,798	84,650,023	79,070,751

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - FEDERAL						
Personal Service	0	0	0	0	0	0
Expense and Equipment	0	0	0	0	0	0
Personal Service	0	0	0	0	0	0
Expense and Equipment	0	0	0	0	0	0
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act I Services	0	0	0	0	0	0
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act II Services	0	0	0	0	0	0
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act III, Interlibrary Cooperation	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	44,000	37,672	6,328	44,000	43,564	436
Expense and Equipment	0	0	0	0	0	0
Literacy Investment for Tomorrow Program	0	0	0	161,511	24,144	137,367
Central Administration - Personal Service and/or Expense and Equipment	0	0	0	558,006	412,168	145,838
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library	1,500,000	1,428,521	71,479	2,965,770	1,170,308	1,795,462
Personal Service	446,547	262,690	183,857	0	0	0
Central Administration - Expense and Equipment	133,574	97,743	35,831	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	64,638	60,174	4,464	0	0	0
Total General Revenue Fund - Federal	2,188,759	1,886,800	301,959	3,729,287	1,650,184	2,079,103

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
TECHNOLOGY TRUST FUND						
Personal Service	67,344	13,306	54,038	64,024	40,794	23,230
Expense and Equipment	2,932,656	1,917,450	1,015,206	2,439,600	2,095,299	344,301
Total Technology Trust Fund	3,000,000	1,930,756	1,069,244	2,503,624	2,136,093	367,531
LOCAL RECORDS PRESERVATION FUND						
Payment of real property leases and related services and utilities - Expense and Equipment	0	0	0	0	0	0
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	240	0	240	240	0	240
Personal Service	722,332	644,317	78,015	655,521	600,215	55,306
Expense and Equipment	214,163	202,039	12,124	354,432	316,226	38,206
Local records preservation grants	400,000	374,883	25,117	500,000	442,964	57,036
Total Local Records Preservation Fund	1,336,735	1,221,239	115,496	1,510,193	1,359,405	150,788
LIBRARY NETWORKING FUND						
Library Network Grants	1	0	1	0	0	0
Total Library Networking Fund	1	0	1	0	0	0
INVESTOR EDUCATION FUND						
Investor Education	50,000	50,000	0	0	0	0
Total Investor Education Fund	50,000	50,000	0	0	0	0
STATE DOCUMENT PRESERVATION FUND						
Preserving legal, historical and genealogical materials and making them available to the public - Expense and Equipment	27,515	18,504	9,011	0	0	0
Total State Document Preservation Fund	27,515	18,504	9,011	0	0	0
WOLFNER STATE LIBRARY FUND						
Aid for the Blind and Physically Handicapped - Expense and Equipment	75,000	44,928	30,072	75,000	0	75,000
Total Wolfner State Library Fund	75,000	44,928	30,072	75,000	0	75,000
INSTITUTION GIFT TRUST FUND						
Personal Service	95,109	67,044	28,065	22,260	22,224	36
Investor education	0	0	0	50,000	50,000	0
Expense and Equipment	113,464	101,885	11,579	70,000	39,623	30,377
Total Institution Gift Trust Fund	208,573	168,929	39,644	142,260	111,847	30,413

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal Service	4,595,098	4,180,183	414,915	4,095,542	3,947,967	147,575
Expense and Equipment	2,732,222	2,285,642	446,580	2,151,664	1,860,692	290,972
Expenses of initiative referendum and constitutional amendments	100,000	91,753	8,247	606,000	605,908	92
Refunds of securities, corporations, uniform commercial code and miscellaneous collections of the Secretary of State's Office	5,900,000	5,785,814	114,186	5,400,000	4,185,575	1,214,425
Payment of real property leases and related services and utilities - Expense and Equipment	0	0	0	0	0	0
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	62,008	62,008	0	62,008	61,833	175
Central Administration - Personal Service	0	0	0	0	0	0
Central Administration - Expense and Equipment	0	0	0	0	0	0
Aid to Public Libraries	2,160,893	2,160,893	0	1,964,448	1,964,448	0
Aid for the Blind and Physically Handicapped - Personal Service	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Access from other public libraries	0	0	0	0	0	0
Literacy Investment for Tomorrow Program	69,450	69,450	0	69,450	69,450	0
Aid for the Blind and Physically Handicapped - Personal Service and/or Expense and Equipment	0	0	0	534,932	534,932	0
Central Administration - Personal Service and/or Expense and Equipment	0	0	0	990,359	990,359	0
Aid for the Blind and Physically Handicapped - Purchasing large print books	0	0	0	35,000	35,000	0
Costs related to library automation	2,670,095	902,948	1,767,147	3,000,000	329,905	2,670,095
Personal Service	622,411	612,847	9,564	0	0	0
Central Administration - Expense and Equipment	461,281	459,681	1,600	0	0	0

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1998			1997		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
Aid for the Blind and Physically Handicapped - Personal Service	429,107	426,868	2,239	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	93,172	93,172	0	0	0	0
Total General Revenue Fund - State	19,895,737	17,131,259	2,764,478	18,909,403	14,586,069	4,323,334
Total All Funds	$ 26,782,320	22,452,415	4,329,905	26,869,767	19,843,598	7,026,169

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30, 1996			1995		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - FEDERAL						
Personal Service	57,640	15,552	42,088	50,300	48,305	1,995
Expense and Equipment	1,550	0	1,550	1,550	0	1,550
Personal Service	400,408	258,231	142,177	377,947	244,844	133,103
Expense and Equipment	133,574	123,531	10,043	148,574	147,254	1,320
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act I Services	2,590,797	669,460	1,921,337	2,590,797	784,477	1,806,320
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act II Services	899,541	373,091	526,450	899,541	532,310	367,231
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library. The Library Service and Construction Act, Title Act III, Interlibrary Cooperation	643,224	176,416	466,808	643,224	534,414	108,810
Aid for the Blind and Physically Handicapped - Expense and Equipment	44,000	34,008	9,992	44,000	43,728	272
Expense and Equipment	0	0	0	160,000	160,000	0
Literacy Investment for Tomorrow Program	161,511	25,157	136,354	71,873	22,572	49,301
Central Administration - Personal Service and/or Expense and Equipment	0	0	0	0	0	0
Allotments, grants and contributions from the Federal Government or from any sources which may be deposited in the State Treasury for the use of the Missouri State Library	0	0	0	0	0	0
Personal Service	0	0	0	0	0	0
Central Administration - Expense and Equipment	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	0	0	0	0	0	0
Total General Revenue Fund - Federal	4,932,245	1,675,446	3,256,799	4,987,806	2,517,904	2,469,902

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1996			1995		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
TECHNOLOGY TRUST FUND						
Personal Service	60,400	25,952	34,448	0	0	0
Expense and Equipment	2,739,600	2,739,600	0	0	0	0
Total Technology Trust Fund	2,800,000	2,765,552	34,448	0	0	0
LOCAL RECORDS PRESERVATION FUND						
Payment of real property leases and related services and utilities - Expense and Equipment	240	170	70	240	220	20
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	0	0	0	0	0	0
Personal Service	618,418	604,206	14,212	549,529	504,657	44,872
Expense and Equipment	239,348	239,348	0	308,373	304,795	3,578
Local records preservation grants	500,000	449,116	50,884	350,000	268,730	81,270
Total Local Records Preservation Fund	1,358,006	1,292,840	65,166	1,208,142	1,078,402	129,740
LIBRARY NETWORKING FUND						
Library Network Grants	0	0	0	0	0	0
Total Library Networking Fund	0	0	0	0	0	0
INVESTOR EDUCATION FUND						
Investor Education	0	0	0	0	0	0
Total Investor Education Fund	0	0	0	0	0	0
STATE DOCUMENT PRESERVATION FUND						
Preserving legal, historical and genealogical materials and making them available to the public - Expense and Equipment	0	0	0	0	0	0
Total State Document Preservation Fund	0	0	0	0	0	0
WOLFNER STATE LIBRARY FUND						
Aid for the Blind and Physically Handicapped - Expense and Equipment	75,000	0	75,000	75,000	0	75,000
Total Wolfner State Library Fund	75,000	0	75,000	75,000	0	75,000
INSTITUTION GIFT TRUST FUND						
Personal Service	17,886	17,886	0	17,198	14,868	2,330
Investor education	50,000	50,000	0	50,000	50,000	0
Expense and Equipment	70,000	30,503	39,497	70,000	50,000	20,000
Total Institution Gift Trust Fund	137,886	98,389	39,497	137,198	114,868	22,330

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30, 1996			1995		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
GENERAL REVENUE FUND - STATE						
Personal Service	3,862,945	3,782,115	80,830	3,617,867	3,475,617	142,250
Expense and Equipment	2,640,184	2,513,205	126,979	2,106,684	2,025,212	81,472
Expenses of initiative referendum and constitutional amendments	100,000	74,794	25,206	634,000	633,276	724
Refunds of securities, corporations, uniform commercial code and miscellaneous collections of the Secretary of State's Office	5,400,000	5,314,986	85,014	5,700,000	5,566,469	133,531
Payment of real property leases and related services and utilities - Expense and Equipment	62,008	57,097	4,911	5,560	5,360	200
Payment of real property leases, related services, utilities and systems furniture; and structural modifications for new FTE - Expense and Equipment	0	0	0	0	0	0
Central Administration - Personal Service	558,736	529,334	29,402	530,509	479,463	51,046
Central Administration - Expense and Equipment	449,181	449,181	0	351,678	351,567	111
Aid to Public Libraries	1,964,448	1,964,448	0	1,964,448	1,964,448	0
Aid for the Blind and Physically Handicapped - Personal Service	383,968	378,424	5,544	358,301	335,138	23,163
Aid for the Blind and Physically Handicapped - Expense and Equipment	93,937	93,937	0	58,937	58,937	0
Aid for the Blind and Physically Handicapped - Access from other public libraries	45,000	45,000	0	0	0	0
Literacy Investment for Tomorrow Program	69,450	69,450	0	40,000	40,000	0
Aid for the Blind and Physically Handicapped - Personal Service and/or Expense and Equipment	0	0	0	0	0	0
Central Administration - Personal Service and/or Expense and Equipment	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Purchasing large print books	0	0	0	0	0	0
Costs related to library automation	0	0	0	0	0	0
Personal Service	0	0	0	0	0	0
Central Administration - Expense and Equipment	0	0	0	0	0	0

Exhibit C

OFFICE OF SECRETARY OF STATE
COMPARATIVE STATEMENT OF APPROPRIATIONS AND EXPENDITURES

	Year Ended June 30,					
	1996			1995		
	Appropriations	Expenditures	Lapsed Balances	Appropriations	Expenditures	Lapsed Balances
Aid for the Blind and Physically Handicapped - Personal Service	0	0	0	0	0	0
Aid for the Blind and Physically Handicapped - Expense and Equipment	0	0	0	0	0	0
Total General Revenue Fund - State	15,629,857	15,271,971	357,886	15,367,984	14,935,487	432,497
Total All Funds	$ 24,932,994	21,104,198	3,828,796	21,776,130	18,646,661	3,129,469

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

OFFICE OF SECRETARY OF STATE
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying special-purpose financial statements present only selected data for each fund of the Office of Secretary of State.

Receipts, disbursements, and changes in cash and investments are presented in Exhibit A for the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Investor Education Fund, State Document Preservation Fund, Wolfner State Library Fund, and the Institution Gift Trust Fund. Appropriations from these funds are expended by or for the office for restricted purposes.

The "Total (Memorandum Only)" column is presented as additional analytical data. Because this column does not identify the restrictions that exist by fund, it should be read only with reference to the details of each fund.

Receipts are presented in Exhibit B for the General Revenue Fund-State. Receipts include monies the office collects during its normal activities and remits to the fund. These amounts are not necessarily related to appropriations.

Appropriations, presented in Exhibit C, are not separate accounting entities. They do not record the assets, liabilities, and equities of the related funds but are used only to account for and control the office's expenditures from amounts appropriated by the General Assembly.

Expenditures presented for each appropriation may not reflect the total cost of the related activity. Other direct and indirect costs provided by the office and other state agencies are not allocated to the applicable fund or program.

B. Basis of Accounting

The Statements of Receipts, Disbursements, and Changes in Cash and Investments, Exhibit A, prepared on the cash basis of accounting, present amounts when they are received or disbursed.

The Statement of Receipts, Exhibit B, also prepared on the cash basis of accounting, presents amounts when received.

The Statement of Appropriations and Expenditures, Exhibit C, is presented on the state's legal budgetary basis of accounting which recognizes expenditures on the encumbrance method. Expenditures include amounts payable or encumbered at June

30 and paid during the lapse period, which ends August 31 for regular appropriations and December 31 for capital improvement appropriations. The authority to expend appropriations ends with the close of the lapse period. However, the General Assembly may authorize reappropriation of the unexpended balances of capital improvement appropriations for the following year. The General Assembly also may authorize biennial capital improvement appropriations, for which the unexpended balances at June 30 of the first year of the two-year period are reappropriated for expenditure during the second year.

The cash basis of accounting and the budgetary basis of accounting differ from generally accepted accounting principles, which require revenues to be recognized when they become available and measurable or when they are earned and expenditures or expenses to be recognized when the related liabilities are incurred.

C. Fiscal Authority and Responsibility

The office administers transactions in the funds listed below. The state treasurer as fund custodian and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly.

<ins>General Revenue Fund-Federal</ins>: The office administers several programs financed wholly or partially by federal monies maintained in the state treasury in the Office of Secretary of State's Federal Account. These federal funds may be received in advance, when related expenditures are made, or after they are made. Appropriations from this fund authorize the disbursements of the office's federal funds.

<ins>Technology Trust Fund</ins>: Effective August 28, 1994, this fund was established under Section 28.160, RSMo 1994, to receive fees for certain services provided by the Secretary of State’s Office. Expenditures are authorized by appropriation for the purposes of establishing, procuring, developing, modernizing and maintaining an electronic data processing system and programs for a centralized data base of all registered voters; library services; and services, equipment, and functions related to administrative rules, securities, corporations and business organizations, archives, Uniform Commercial Code and record services. The authority to collect certain fees expires December 31, 2001. At the end of any biennium, any amount in the fund in excess of $5 million shall be transferred to the General Revenue Fund-State.

<ins>Local Records Preservation Fund</ins>: This fund was established under Section 59.319, RSMo 1994, to receive user fees from document recordings in each county. Expenditures are authorized by appropriation for preservation of local records by the Secretary of State. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

<ins>Library Networking Fund</ins>: This fund was established under Section 182.812, RSMo Cum. Supp. 1997, to consist of any gifts, contributions, grants, or bequests received from federal, private or other sources. Expenditures are authorized by appropriation

for library networks. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Investor Education Fund: Effective August 28, 1996, this fund was established under Section 409.407, RSMo Cum. Supp. 1997, to receive collections from enforcement actions of the Secretary of State Securities Division. Expenditures are authorized by appropriation for investor education programs. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

State Document Preservation Fund: Effective August 28, 1996, this fund was established under Section 109.005, RSMo Cum. Supp. 1997, to receive monies from gifts, bequests or contributions for the specific purpose of preserving legal, historical and genealogical materials and making them available to the public. Expenditures are authorized by appropriation for state document preservation. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

Wolfner State Library Fund: This fund was established under Section 181.021, RSMo 1994, to account for donations restricted to improving library services to the blind and physically handicapped. In addition to donations, revenues consist of earnings from fund investments. The investments of the Wolfner Trust Fund are held and managed by a trust company and investment income is transferred to the custody of the state treasurer on a periodic basis.

Institution Gift Trust Fund: This fund was established under Section 33.563, RSMo 1994, to receive collections from enforcement actions of the Secretary of State Securities Division. Expenditures are authorized by appropriation for investor education programs. Balances remaining in the fund are perpetually maintained for the purpose of the fund.

General Revenue Fund-State: The office receives appropriations from this fund and does not maintain a proprietary interest in the fund. Appropriations from the fund are used for the basic operation of the office, including those programs and services that have no other funding source. These appropriations also may be used to initially fund, or to provide matching funds or support for, programs paid wholly or partially from other sources.

D. Employee Fringe Benefits

In addition to the social security system, employees are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the state's health care, optional life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll reductions. Also, the deferred compensation plan involves employee payroll deferrals and, beginning January 1, 1996, a monthly state matching contribution for each participating employee.

The state's required contributions for employee fringe benefits are paid from the same funds as the related payrolls. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits); social security and medicare taxes; health care premiums; and the deferred compensation plan match.

Employee fringe benefits in the financial statements at Exhibit A are the transfers from the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, and Institution Gift Trust Fund for costs related to salaries paid from those funds. Transfers related to salaries are not appropriated by agency and thus are not presented in the financial statements at Exhibit C.

2. Cash and Investments

The balances of the General Revenue Fund-Federal, Technology Trust Fund, Local Records Preservation Fund, Investor Education Fund, State Document Preservation Fund, a portion of the Wolfner State Library Fund and Institution Gift Trust Fund, are pooled with other state funds and invested by the state treasurer.

The Wolfner State Library Fund's investments are composed of the following:

	Year Ended June 30,							
	1998		1997		1996		1995	
	Reported Amount	Fair Value	Reported Amount	Fair Value	Reported Amount	Fair Value	Reported Amount	Fair Value
U. S. Treasury notes (various interest rates ranging from 4.75 to 9.25 percent)	$ 105,389	105,941	105,389	104,856	75,666	74,790	106,294	105,949
Common Funds (various interest rates ranging from 5 to 5.6 percent)	21,150	21,150	21,098	21,098	48,068	48,068	29,033	29,033
Common Stocks	80,210	187,500	80,230	174,613	80,233	143,041	69,094	107,909
Convertible preferred stock	0	0	0	0	2,690	3,240	2,690	3,131
Miscellaneous	1	1	1	1	1	1	1	1
Total	$ 206,750	314,592	206,718	300,568	206,658	269,140	207,112	246,023

These investments were held by the office's custodial bank in the Office of Secretary of State's name.

3. Reconciliation of Total Disbursements to Appropriated Expenditures

Disbursements on Exhibit A reconcile to appropriated expenditures on Exhibit C as follows:

General Revenue Fund-Federal

		Year Ended June 30,			
		1998	1997	1996	1995
DISBURSEMENTS PER EXHIBIT A	$	2,022,281	1,680,091	1,663,895	2,590,935
Employee fringe benefits		(84,644)	(60,885)	(71,961)	(80,416)
Lapse period expenditures					
1998		77,835			
1997		(123,645)	123,645		
1996			(90,390)	90,390	
1995				(23,191)	23,191
1994					(11,023)
Accounts Payable					
1998		9,163			
1997		(14,190)	14,190		
1996			(16,467)	16,467	
1995				(154)	154
1994					(4,937)
EXPENDITURES PER EXHIBIT C	$	1,886,800	1,650,184	1,675,446	2,517,904

Technology Trust Fund

		Year Ended June 30,		
		1998	1997	1996
DISBURSEMENTS PER EXHIBIT A	$	2,746,434	2,711,113	859,397
Employee fringe benefits		(3,397)	(9,499)	(5,229)
Lapse period expenditures				
1998		530,124		
1997		(1,343,168)	1,343,168	
1996			(1,895,006)	1,895,006
1995				0
Accounts Payable				
1998		3,458		
1997		(2,695)	2,695	
1996			(16,378)	16,378
1995				0
EXPENDITURES PER EXHIBIT C	$	1,930,756	2,136,093	2,765,552

Local Records Preservation Fund

		Year Ended June 30,			
		1998	1997	1996	1995
DISBURSEMENTS PER EXHIBIT A	$	1,407,568	1,488,746	1,419,454	1,232,966
Employee fringe benefits		(164,556)	(158,853)	(155,024)	(155,671)
Lapse period expenditures					
1998		68,591			
1997		(78,047)	78,047		
1996			(48,756)	48,756	
1995				(13,561)	13,561
1994					(29,241)
Accounts Payable					
1998		1,963			
1997		(14,280)	14,280		
1996			(14,059)	14,059	
1995				(20,844)	20,844
1994					(4,057)
EXPENDITURES PER EXHIBIT C	$	1,221,239	1,359,405	1,292,840	1,078,402

Wolfner State Library Fund

		Year Ended June 30,			
		1998	1997	1996	1995
DISBURSEMENTS PER EXHIBIT A	$	44,012	3,532	2,682	2,348
Trust Service Charges withheld from investment earnings		(4,227)	(3,532)	(2,682)	(2,348)
Lapse period expenditures					
1998		5,143			
EXPENDITURES PER EXHIBIT C	$	44,928	0	0	0

Institution Gift Trust Fund

		Year Ended June 30,			
		1998	1997	1996	1995
DISBURSEMENTS PER EXHIBIT A	$	166,296	115,762	75,510	124,672
Employee fringe benefits		(17,330)	(6,115)	(5,313)	(9,804)
Lapse period expenditures					
1998		48,160			
1997		(30,392)	30,392		
1996			(28,192)	28,192	
1995				0	0
1994					0
Accounts Payable					
1998		2,195			
1997		0			
1996			0		
1995				0	
1994					0
EXPENDITURES PER EXHIBIT C	$	168,929	111,847	98,389	114,868

4. Operating Transfers Out

These transfer out amounts represent these funds' porportional share of fiscal year 1996 and 1995 refunds required by Article X, Section 18 of the Missouri Constitution.

Supplementary Data

Schedule

OFFICE OF SECRETARY OF STATE
COMPARATIVE SCHEDULE OF EXPENDITURES (FROM APPROPRIATIONS)

		Year Ended June 30,				
		1998	1997	1996	1995	1994
Personal service	$	6,267,429	5,824,902	5,611,699	5,102,892	4,818,823
Travel and vehicle:						
Expense		260,975	233,537	210,095	209,843	256,415
Equipment purchase		46,868	0	17,088	63,404	26,341
Office and communication:						
Expense		2,042,913	2,058,439	1,957,191	2,057,002	1,890,413
Equipment purchase		292,411	353,769	325,122	381,355	114,900
Institution and physical plant:						
Expense		295,484	291,187	266,614	187,190	146,817
Equipment purchase		21,884	9,351	3,310	12,234	29,844
Data processing expense and equipment		2,314,506	2,751,153	3,323,830	892,919	786,258
Professional services		231,431	228,594	390,124	248,829	133,627
Miscellaneous programs		4,669,930	3,651,192	3,398,051	3,576,669	2,677,874
Refunds		5,785,311	4,161,631	5,314,024	5,566,414	4,558,174
Other expense		223,273	279,843	287,050	347,910	94,084
Total Expenditures	$	22,452,415	19,843,598	21,104,198	18,646,661	15,533,570

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Current Recommendations

OFFICE OF SECRETARY OF STATE
SUMMARY OF FINDINGS

1. Computer Consulting (pages 34-35)

The office contracted with a consulting firm to work on information technology upgrades. Contracts were paid, although required tasks were not being completed by the consultant. The contract with the consulting firm was renewed and expanded by the Office of Administration, despite concerns regarding performance.

2. Franchise Tax (pages 35-39)

The Franchise Tax Division does not always administratively dissolve corporations for failure to pay franchise taxes. Delinquent tax notices are not sent on a regular basis. Delinquent taxes are not certified to the Office of Attorney General as required by state law. Procedures for waiving of penalties do not reflect proper segregation of duties. Protest franchise tax cases are not resolved in a timely manner. Monies are not transmitted from the Franchise Tax Division to the Department of Revenue in a timely manner.

3. Local Records Grant Program (pages 39-40)

The Local Records Division does not have written criteria establishing when an entity will be allowed to be granted an extension of time on their local records grant and is allowing entities more time than provided for in the CSR's to complete grants.

4. Fixed Asset Records and Procedures (pages 40-41)

An annual schedule of additions and deletions of fixed assets is not prepared and the fixed asset records are not accurate or complete.

5. Accounting Controls and Procedures (page 41)

There is a lack of segregation of duties in various divisions within the Office of Secretary of State. Periodic reconciliations between receipt ledgers and SAM reports are not performed.

6. Accumulated Annual Leave Balances (page 42)

The computer system maintained in the payroll division allows employees to exceed the maximum annual leave balances allowed by state regulation.

OFFICE OF SECRETARY OF STATE
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S CURRENT RECOMMENDATIONS

We have audited the special-purpose financial statements of the Office of Secretary of State as of and for the years ended June 30, 1998, 1997, 1996, and 1995, and have issued our report thereon dated October 1, 1998.

The following Management Advisory Report presents our findings and recommendations arising from our audit of the office's special-purpose financial statements. During our audit, we also identified certain management practices which we believe could be improved. Our audit was not designed or intended to be a detailed study of every system, procedure, and transaction. Accordingly, the findings presented in the following report should not be considered as all-inclusive of areas where improvements may be needed.

1. Computer Consulting

During the four fiscal years ended June 30, 1998, the Secretary of State paid approximately $1.5 million to a computer consulting firm working on information technology upgrades for the Office of Secretary of State. The consulting firm was selected using the Office of Administration, Division of Purchasing and Materials Management, bid and procurement process. The original one-year contract began in June 1995 and called for the implementation of the centralized voter registration database and development of a computer strategy plan. It contained renewal options for up to four years for implementation of the strategy plan. The contract has been renewed three times and expanded to include seven additional distinct tasks of which one has been completed. The current contract is in effect until July 1999. During our review of this contract we noted the following concerns:

A. Task 5 of the contract was valued at $823,995 and had a planned completion date of May 1997. The basis for compensation established in the contract was for a fixed fee for delivery of twenty-six specific reports. Throughout the course of the work, payment was made to the consulting firm based on hours billed rather than products delivered. By April 1998, only one-half of the required reports had been delivered, yet the Office of Secretary of State had paid 94 percent of the contract amount. In April 1998, the Office of Secretary of State stopped payment to the firm for the entire contract until the required reports are delivered. As of October 1998, Task 5 remained incomplete.

The Office of Secretary of State should ensure that all contract terms are followed, require the consulting firm to submit progress billings that present information regarding deliverables, and provide adequate support for payments to be made in accordance with the contract. Such reports would enable the office to better monitor work progress and results, and ensure that compensation paid is reasonable as compared to services rendered. In addition, the Office of Secretary of State should have considered taking action at or closer to the planned completion date.

B. Despite non-performance on Task 5, the Office of Administration (OA) continued to grant contract renewals and additional work to the consulting firm. In June 1997 only one of twenty-six required reports for Task 5 had been delivered, yet the contract was renewed and Tasks 6,7, and 8, valued at $515,714, were added. The consulting firm requested and was granted an extension to January 31, 1998, to complete Task 5. Yet in March 1998, with Task 5 still not complete, Task 9, valued at $874,885 was awarded.

Tasks 6, 7, and 8 were to be completed by June 1998. While Task 6 was completed in October 1997, Tasks 7 and 8 were still unfinished at October 1998. Task 9 has a required completion date of April 1999. However, timely completion of Task 9 may be hindered due to its reliance on the completion of some reports to be provided under Task 5.

OA personnel indicated their policy is to grant contract renewals automatically unless problems or concerns are communicated to them by the agency. It does not appear that the Secretary of State informed OA of the task completion problem. Informing the OA of problems is necessary to ensure appropriate decisions are made.

WE RECOMMEND the Office of Secretary of State:

A. Monitor the progress of contractors and make payments that coincide with performance and delivery of product.

B. Thoroughly assess progress of the current contract with the consulting firm and consider options to either ensure successful completion of all tasks or exercise any provisions in the contract regarding non-performance on the part of the contractor. In the future, the Office of Secretary of State needs to closely monitor and properly react to contracted services concerns more timely, and inform the Office of Administration of such concerns.

AUDITEE'S RESPONSE

We agree.

2. Franchise Tax

The Franchise Tax Division collects revenue in excess of $60 million annually. The Franchise Tax Division does not maintain an updated list of all corporations for which franchise taxes are due. At our request, office personnel did prepare a list of active corporations with balances due as of June 30, 1998. These amounts were for the 1998 tax year and prior years. The division's list indicated franchise taxes due totaling approximately $5 million. During our review of the division's policies and procedures, we noted the following concerns.

A.1. Section 147.040.8, RSMo 1994, requires that any corporation failing or neglecting to file the required annual corporate report or pay its franchise tax within ninety days after it is due shall be administratively dissolved. During our review of delinquent franchise taxes, we noted several active corporations with outstanding balances which were more than ninety days past due. These corporations were not administratively dissolved.

Once a corporation is administratively dissolved, it must pay previous delinquencies to attain an active status with the Secretary of State and reinstate its certificate of incorporation. Allowing corporations to remain active with these delinquencies provides no incentive for corporations to pay their taxes when due.

2. Delinquent notices are not sent on a regular basis to corporations with outstanding franchise taxes to ensure taxes, interest, and penalties are collected in a timely manner. The delinquency list included several amounts over ninety days delinquent. We noted an instance where the delinquent notice was sent more than 137 days after the franchise tax report was received.

The computer system in the division produces several reports regarding corporations that owe amounts for franchise taxes. One report lists only current year taxes that are due. This is the only report used by employees to send delinquent notices. Corporations that pay their tax but owe additional assessments are not sent a delinquent notice.

When delinquent tax notices are not issued on a regular basis, there is an increased likelihood that taxes, interests, and penalties will not be collected. This condition could result in lost tax revenue to the state.

3. Section 147.120.1, RSMo Cum. Supp. 1997, requires the Secretary of State to certify to the Attorney General those corporations which fail to pay franchise taxes (including interest and penalties) after the assessment becomes final. State law requires the Attorney General to proceed against such corporations to collect the delinquent taxes.

Division personnel indicated that accounts that have been assessed, remain unpaid, and have not appealed are good candidates for certification; however, this action does not occur regularly. While they could not provide documentation of any corporations certified to the Attorney General during the audit period, they did indicate numerous cases were recently certified to the Attorney General for collection.

Failure to certify franchise tax delinquencies to the Attorney General on a timely, periodic basis increases the likelihood these taxes will not be collected.

4. Information from corporate franchise tax returns is entered in the computer. The computer then calculates the amount of tax that is due. If the amount remitted by the corporation is less than required, an assessment notice is generated, which indicates the amount of interest and penalties due. Prior to late 1995, the computer system which calculates the amount of franchise tax due did not have the capability to calculate the amount of interest and penalties due. In late 1995, this computer program was revised to calculate interest and penalties. Division personnel informed us that the amounts calculated are often incorrect, and have been this way since the revision of the program. Because of the unreliability of the system's calculations, interest and penalties amounts must be verified through manual calculations. Due to the large volume of franchise tax returns handled by the division, this process is very time consuming and could result in incorrect assessments.

   The Franchise Tax Division is currently in the process of making significant revisions to their computer system. Division personnel indicated the new system should better track delinquent taxes as well as accurately compute interest and penalties due. Since franchise tax results in large revenues to the state, the office should ensure this area is considered a high priority on their automation plans.

Conditions similar to 1., 2., and 3. were also noted in prior audit reports.

B. Section 147.120.3, RSMo Cum. Supp. 1997, provides the Secretary of State may waive penalties if there is a reasonable basis for doing so. Personnel indicated that penalties can be waived at the discretion of only one franchise tax reviewer. This same reviewer is also authorized to receive payments and record transactions. Adequate segregation of duties requires that individuals who receive payments and record transactions not be allowed to waive amounts due. Without this segregation, there is a higher risk that misappropriation of assets could occur.

   This condition was also noted in our prior audit report.

C. Underpayment of franchise taxes results in the division sending an assessment notice to the corporation. The corporation has thirty days to file a written protest, stating the reason for the protest. Protests can result from a franchise tax audit performed by the Department of Revenue (DOR) or from an assessment sent out by the division. The Secretary of State's office reconsiders the assessment based on the written protest and sends a letter to the corporation advising them of the outcome. If the corporation disagrees, they have 30 days to appeal the decision to the Administrative Hearing Commission.

   At our request, office personnel prepared a list of pending protested tax cases as of June 1998. This list included sixty corporations and totaled $3,475,363. For four of these cases, the original dates of assessment went back to 1991. In addition, twenty of the cases, totaling $229,663, were included on a delinquent protest report provided to us in the prior audit.

Protested franchise taxes do not appear to be resolved in a timely manner. The untimely resolution of protested franchise taxes could result in lost revenue to the state.

This condition was also noted in our prior audit report.

D. Corporations must file their annual reports and pay their franchise taxes on the fifteenth day of the fourth month from the beginning of the taxable period. Since most corporations utilize the calendar year basis, the majority of taxes are due on April 15. We examined the transmittals made to the DOR from June 1, 1998 through June 4, 1998, and noted that the monies transmitted represented receipts from April 14, 1998 through May 28, 1998. The transmittals totaled approximately $2.1 million. These untimely transmittals resulted in approximately $13,000 in lost interest revenues to the state. It appears this untimeliness resulted because of the significant volume of franchise tax returns submitted during this time and is not indicative of normal processing timeframes.

To safeguard against the loss or misuse of funds, and to ensure interest revenues are maximized, monies should be transmitted to the DOR more timely. Options such as temporary staffing increases need to be considered to ensure timely transmittals occur even during the busiest time periods.

WE RECOMMEND the Office of Secretary of State:

A.1. Administratively dissolve corporations for failure to remit amounts due, in accordance with state law.

2. Issue delinquent tax notices on a regular basis to corporations with outstanding franchise tax balances.

3. Certify franchise tax delinquencies to the attorney general in accordance with state law.

4. Continue efforts to revise the franchise tax computer system.

B. Ensure that employees who receive payments and record transactions are not authorized to waive penalties.

C. Resolve protested franchise tax cases in a more timely manner.

D. Ensure that monies are transmitted to the DOR in a timely manner.

AUDITEE'S RESPONSE

A.1,2,
4,&D. We agree.
A.3.&

B. *We agree. This has been implemented.*

C. *We agree. We do note that some cases cannot be resolved quickly for reasons which are out of our control. For example, one case has been held in abeyance since August, 1996, awaiting the outcome of another case before the United States Supreme Court. That one case represents $1,876,393 of the total noted.*

3. Local Records Grant Program

The Missouri Local Records Grant Program supports local public records preservation by means of financial assistance through grants to local governmental entities and private organizations that house local public records. During the years ended June 30, 1998, 1997, 1996 and 1995, grants totaling approximately $399,762, $486,216, $493,568, and $349,700, respectively, were awarded for this program.

Procedures are for entities to submit an application for the grant. If the entity is awarded a grant, seventy percent of the grant is immediately paid for grants under $10,000 and thirty-five percent for grants over $10,000. Grants issued for this program are to be completed within the fiscal year the grant was awarded. However, the Code of State Regulations at 15 CSR 30-45.030 provides for grant recipients to be given an extension, not to exceed one year, upon written permission by the Secretary of State.

According to the Local Records Division's September 1998 listing of the various grants and their status, there are currently five entities in default (grant work not completed within the initial fiscal year or the one year extension and monies not yet repaid to the Office of Secretary of State). Although the CSR indicates that no grant shall be allowed to continue for more than two years, the division has granted these entities an additional extension and not requested repayment of the unused funds. This listing also revealed that of the eighty-two grants awarded for fiscal year 1998, fifteen grants (or 18 percent), totaling $71,172, were granted extensions. Division personnel indicated that any entities that request an extension will be approved. No guidelines or criteria have been established to provide a basis for approving or disapproving extensions. Automatic approval of extensions allows entities to delay grant performance, increases the division's recordkeeping and monitoring responsibilities, and increases the possibility that monies will not be repaid should an entity default. Division personnel indicated that the current CSR is being reviewed to determine any changes that may be required. By establishing criteria for approving extensions and making grant recipients aware of them, the division can emphasize to entities that grant funds can be revoked if progress is not made within the award period.

The division's procedures to advance grant funds and approve extensions without some stringent expectations or progress requirements, while in compliance with the CSR, also result in a loss of interest revenues to the state. Consideration should be given to decreasing amounts advanced, providing grant monies on a reimbursement basis, and/or placing more limitations on extension approvals and timeframes.

WE RECOMMEND the Office of Secretary of State establish criteria to be followed in considering which entities are eligible for an extension and reconsider their funding method to maximize revenues to the state.

AUDITEE'S RESPONSE

We agree.

4. Fixed Asset Records and Procedures

The total cost of general fixed assets maintained by the Office of Secretary of State exceeds $6 million. As discussed in our prior audit report, fixed asset records and procedures are not adequate, and did not provide sufficient information to allow us to audit the fixed asset balances and transactions.

Inventory listings have recently been developed for each division. However, these listings do not provide all pertinent data, such as cost, date of purchase, and fund of acquisition. In addition, periodic physical inventories have not been performed and reconciliations between current equipment purchases and Statewide Accounting for Missouri (SAM) system expenditure reports are not being performed. Because adequate records or procedures have not been in place for several years, assets have not been properly safeguarded from theft or misuse.

In June 1998, the fiscal officer was in the process of implementing new procedures and forms to account for current acquisitions, dispositions, and transfers. This information, along with data from each division's inventory listing, is to be entered into a computer database to generate a complete fixed asset listing. Once this listing is completed, the fiscal officer needs to ensure that periodic physical inventories are completed and asset purchases are reconciled to SAM reports to provide additional assurance that the record is complete and remains current.

To ensure all fixed assets are properly recorded, the office should prepare an annual statement of changes in fixed assets. The Code of State Regulations (CSR) at 15 CSR 40-2.031 requires state agencies to prepare an annual statement of changes in fixed assets to summarize transactions occurring during the year. To ensure accuracy, this statement should be reconciled to the detailed fixed asset listing.

The CSR requires agencies to maintain adequate fixed records that contain identification number; description of the items including name, make, model and serial number, where appropriate; acquisition cost; date of acquisition; estimated useful life at the date of acquisition, if applicable; physical location; and method and date of disposition. A comprehensive annual physical inventory should be conducted and reconciled to fixed asset records.

WE RECOMMEND the Office of Secretary of State continue its efforts to establish adequate general fixed assets records and procedures that comply with the CSR requirements and provide adequate controls and accountability.

AUDITEE'S RESPONSE

We agree.

5. Accounting Controls and Procedures

The Office of Secretary of State has several divisions that receive monies. Our review of the accounting controls and procedures in the various divisions noted the following concerns.

A. We noted a lack of segregation of duties in various divisions. The duties of record keeping and custody of receipts are not always adequately segregated. One person generally has access to receipts and related records for each type of transaction. To protect against possible loss or misuse of funds, internal controls should provide reasonable assurance through segregation of duties that all transactions are accounted for properly.

B. Most of the divisions maintain a receipt log for monies received. However, none of the divisions perform periodic reconciliations of their receipts records to the Statewide Accounting for Missouri (SAM) system. Reconciliations of initial records of receipts to SAM are necessary to ensure revenues are properly accounted for and recorded.

WE RECOMMEND the Office of Secretary of State:

A. Review the internal controls and procedures in the various divisions and ensure the duties of receiving, recording, depositing, and reconciling are adequately segregated. If adequate segregation of duties cannot be achieved, there should be periodic independent supervisory reviews of records and reconciliations.

B. Perform periodic reconciliations between receipts records and the SAM system, and follow up on any discrepancies.

AUDITEE'S RESPONSE

We agree.

6. Accumulated Annual Leave Balances

An automated accumulated leave program is maintained by the Secretary of State's payroll department. This program includes the accumulated leave balances of all employees. Our review noted several employees had accumulated leave balances at various month-ends which exceeded the maximum allowed by state regulations. The number of excess hours noted ranged from 2 to 64 hours.

State personnel guidelines, as stated in 1 CSR 20-5.020 4.(D), indicate that employees are not allowed to accumulate annual leave in excess of the maximum amount which can be earned in two years, and does not allow for carryover of more than that amount. In addition, the office's employee manual includes the same requirement on annual leave. As a result, the office is not in compliance with state personnel guidelines, as well as their own, regarding accumulated annual leave limits.

WE RECOMMEND the Office of Secretary of State discontinue the practice of allowing employees to accumulate annual leave balances in excess of the maximum allowed.

AUDITEE'S RESPONSE

We agree. This recommendation has been implemented and is being tracked appropriately.

This report is intended for the information of the management of the Office of Secretary of State and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on State Auditor's Prior Recommendations

OFFICE OF SECRETARY OF STATE
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the office on recommendations made in the Management Advisory Report (MAR) of our report issued as of and for the period July 1, 1994 to December 16, 1994, and the years ended June 30, 1994 and 1993. The prior recommendations which have not been implemented, but are considered significant, have been repeated in the current MAR. Although the remaining unimplemented recommendations have not been repeated, the office should consider implementing these recommendations.

1. Copier Purchase

The Office of the Secretary of State and the Office of Administration made a joint purchase of a copier, with ownership of the copier to be transferred to OA after a specified period. The Secretary of State's office paid $218,450 for the copier as compared to only $50,000 paid by OA. The average usage for the Secretary of State's office was only 17 percent as compared to an anticipated 40 percent. There was not sufficient justification for the purchase of the machine, and it appears the SOS effectively purchased the copier for another state agency. In addition, because of the specialized bid specifications, only one proposal was considered responsive by the OA.

Recommendation:

The Office of Secretary of State discontinue the practice of using the office's appropriations to pay operating costs of another state agency. In addition, bid specifications should not be so specialized that only one vendor can comply.

Status:

Implemented.

2. Expenditure Policies and Procedures

A. Instances were noted where bids were not obtained, OA waivers were not obtained for outside printing services, vendors on state contract were bypassed, or adequate bid documentation was not retained.

B. Some expense claims reviewed revealed instances of mathematical inaccuracies, lack of proper authorization, and lack of adequate supporting documentation.

C. Various contracted services were not supported by written agreements. In addition, documentation was not available to justify why specific vendors were selected.

Recommendation:

The Office of Secretary of State:

A. Ensure the state's procurement and bid polices and procedures are followed. In addition, adequate supporting documentation for bids should be obtained and retained.

B. Establish policies and procedures to ensure expense reimbursements are necessary, reasonable, and properly authorized.

C. Ensure services are supported by written agreements specifying duties to be performed and compensation to be paid. In addition, the office should, where possible, seek competitive proposals for outside services and document the selection process.

Status:

A-C. Implemented.

3. Use of State Resources

A. An employee of the Secretary of State's office was given the responsibility of soliciting donations for the Missouri First Vote Foundation, a not for profit organization formed by Secretary of State Moriarty and other office personnel.

B. The Secretary of State placed an outside consultant on the office payroll. In addition, his meals and lodging expenses were paid by the Secretary of State's office while he was working in the Jefferson City Office.

C. The Secretary of State's office permitted a private individual to use state office space and equipment to manually prepare a weekly list of new corporations which was provided free to various state agencies and sold to outside subscribers, with the fee payable to the individual. This same information could have been generated by the Corporation Division’s automated data system.

Recommendation:

The Office of Secretary of State:

A. Refrain from using state employees for soliciting donations for a private entity.

B. Reevaluate the practice of placing consultants on the payroll. In addition, reimbursement of lodging and meal expense within an employee's official domicile should be discontinued.

C. Discontinue the practice of allowing an individual to use state resources for personal benefit. The office should determine the most efficient means of transmitting data on new corporations using the automated data processing system.

Status:

A-C Implemented.

4. Franchise Tax

A.1. Corporations were not administratively dissolved, as required by state law.

2. Delinquent notices were not sent on a regular basis to corporations with outstanding franchise taxes due. In addition, the division's computer system did not identify corporations who were granted an extension but failed to file their annual report or pay their franchise tax by the extended due date and corporations that filed their annual report and paid their franchise tax timely, but owed an assessment due to report errors.

3. Corporations with taxes due were not certified to the attorney general for collection.

B. The division issued assessments for only those amounts due which exceeded ten dollars, rather than one dollar, as required by statute.

C. Procedures or guidelines for determining when a penalty may be waived were not in writing. There was not an adequate segregation of duties over authorization and recording of penalty waivers.

D. Protested franchise taxes were not resolved in a timely manner.

Recommendation:

The Office of Secretary of State:

A.1. Administratively dissolve corporations for failure to remit amounts due, in accordance with state law.

2. Issue delinquent tax notices on a regular basis to corporations with outstanding franchise tax balances. The Franchise Tax Division should identify those corporations that are not filing or paying within the extension period and those corporations that are assessed an additional amount.

3. Certify franchise tax delinquencies to the attorney general in accordance with state law.

B. Discontinue the practice of waiving assessments over one dollar. In addition, we recommend the office evaluate the practicality of the current minimum refund and assessment amount and, if necessary, pursue appropriate legislative authority for any changes.

C. Develop written procedures or guidelines for the waiving of penalties, which include the segregation of duties between employees who receive payments and record transactions, and those authorized to waive penalties.

D. Resolve protested franchise tax cases in a timely manner.

Status:

A.1, A.3,
& D. Not implemented. See MAR No. 2.

A.2. Partially implemented. The Franchise Tax Division does identify those corporations that are not filing or paying within the extension period and those corporations that are assessed an additional amount. However, delinquent tax notices are still not sent on a regular basis. See MAR No. 2.

B. Partially implemented. Assessment notices are now sent for amounts greater than $1, as required by statute; however, the office has not evaluated the practicality of the current minimum refund and assessment. Although not repeated in the current MAR, our recommendation remains as stated above.

C. Partially implemented. The office has written procedures and guidelines for waiving penalties; however, the duties of receiving and recording payments, and waiving penalties is not segregated. See MAR No. 2.

5. Investor Restitution Account

A. Revenue transmittals were not periodically reconciled with revenue reports prepared by the Office of Administration.

B. A settlement from a corporate securities dealer resulted in approximately $887,000 being reimbursed to investors, by the corporation. Documentation supporting the pay-out ratio of thirty percent of investor losses for the securities settlement, was not retained. To be eligible for restitution, investors were required to furnish the state copies of confirmations and canceled checks for each purchase and sale. The required information was not present in some claimant files reviewed.

Recommendation:

The Office of Secretary of State:

A. Ensure revenue transmittals are periodically reconciled with revenue reports.

B. Retain documentation to support distributions if restitutions are handled in the future.

Status:

A. Not implemented. See MAR No. 5.

B. Implemented.

6. Local Records Grant Program

The Local Records Division had not established policies and procedures to ensure grant funds are properly handled or accounted for, and required no documentation to support expenditures.

Recommendation:

The Office of Secretary of State establish policies and procedures to review supporting documentation of grant expenditures.

Status:

Implemented.

7. Missouri Election Authorities Conference

The Secretary of State's office established a bank account outside the state treasury for deposit of registration fees received from the participants of the Missouri Election Authorities Conference.

Recommendation:

The Office of Secretary of State refrain from holding funds outside the state treasury unless specifically authorized by state law.

Status:

Implemented.

8. Education Expenses

A. The tuition reimbursement policy did not ensure the course and/or degree being pursued was job related and would benefit the office.

B. Some tuition reimbursements could have been considered wages and subject to income tax and social security withholding.

Recommendation:

The Office of Secretary of State:

A. Evaluate the education policy to ensure education expenses are of a benefit to the office.

B. Determine whether the tuition reimbursements are considered taxable wages subject to income tax and social security withholdings.

Status:

A&B. Implemented.

9. Fixed Asset Records and Procedures

Fixed asset records maintained by Secretary of State's office administrative personnel were not adequate to allow us to audit the fixed asset balances and transactions. A statement of changes in fixed assets was not prepared and not all asset items were properly tagged. In addition, an independent physical inventory was not performed.

Recommendation:

The Office of Secretary of State maintain the fixed asset records on a current basis. An annual schedule of changes in fixed assets should be prepared and all fixed assets should be tagged as required by state law. The office should ensure that accurate locations are recorded on the fixed asset records. In addition, the office should periodically conduct a comprehensive physical inventory and reconcile the inventory to fixed asset records.

Status:

Not implemented. See MAR No. 4.

10. Accounting Controls and Procedures

The duties of record keeping and custody of receipts were not always adequately segregated.

Recommendation:

The Office of Secretary of State review the internal controls and procedures in the various divisions and ensure the duties of receiving, recording, depositing, and reconciling are adequately segregated. If adequate segregation of duties cannot be achieved, there should be periodic independent supervisory reviews of records and reconciliations.

Status:

Not implemented. See MAR No. 5.

STATISTICAL SECTION

History, Organization, and
Statistical Information

OFFICE OF SECRETARY OF STATE
HISTORY , ORGANIZATION AND STATISTICAL INFORMATION

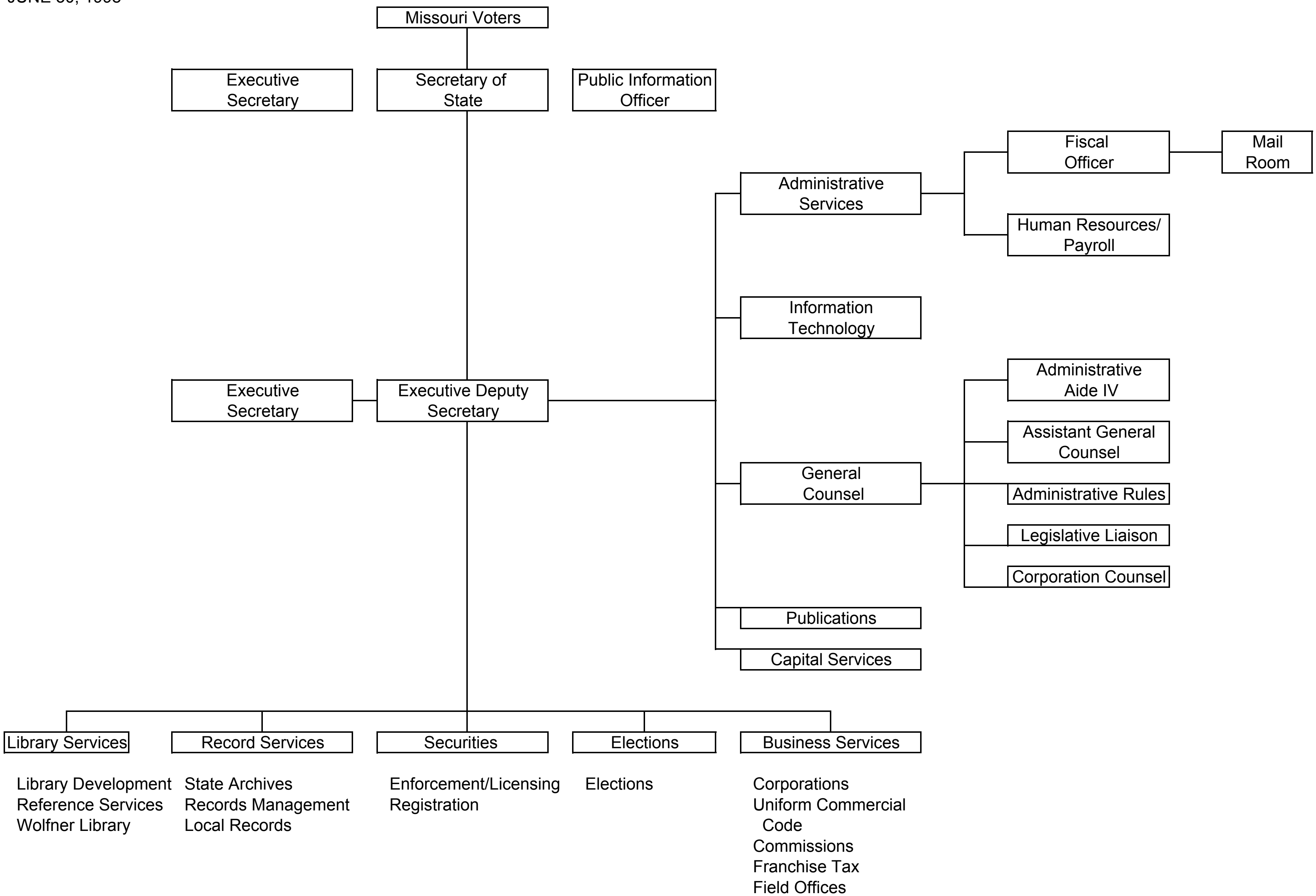
The Office of Secretary of State is an elective office as provided in the Missouri Constitution. Article IV, Section 14, established the duties of the secretary of state: 1) to be custodian of the state seal, 2) to keep a register of the official acts of the governor, 3) to be custodian of records and documents, and 4) to perform such duties in relation to elections and corporations as provided by law.

To accommodate the responsibilities of record keeping, registration, and administration, the Secretary of State's office is currently divided into six departments - Elections, Securities, Business Services, Record Services, Administrative Services and Library Services. Each department is composed of separate divisions which perform specific functions relating to department activities.

The Governor appointed Rebecca McDowell Cook as the thirty-sixth Secretary of State and she was sworn in on December 16, 1994. Secretary of State Cook was elected to a four year term of office in November 1996. Her term expires in January 2001.

As of June 30, 1998, the Office of Secretary of State employed approximately 240 full-time employees. An organization chart follows.

OFFICE OF SECRETARY OF STATE
ORGANIZATION CHART
JUNE 30, 1998



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